

**HARLAN COMMUNITY SCHOOL DISTRICT**  
**INDEPENDENT AUDITORS' REPORT**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTAL INFORMATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2011**

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# HARLAN COMMUNITY SCHOOL DISTRICT

## OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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### Board of Education

Al Hazelton	President	2013
Bruce Goeser	Vice President	2011
Tony Hough	Board Member	2011
Kathy Mahlberg	Board Member	2011
Jay Christensen	Board Member	2013
Lonnie Muxfeldt	Board Member	2013
Tammy Schwartz	Board Member	2013

### School Officials

Justin Wagner	Superintendent	2011
Terri Cox	Director of Personnel/Board Secretary	Indefinite
John Helling	District Treasurer	Indefinite
Brian Gubbels	Director of Finance	Indefinite
Richard Schenck	Attorney	Indefinite

**HARLAN COMMUNITY SCHOOL DISTRICT**



Marilyn Schroer, CPA  
Diane McGrain, CPA  
Jim Menard, CPA

December 27, 2011

## INDEPENDENT AUDITORS' REPORT

The Board of Education  
Harlan Community School District  
Harlan, IA 51537

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Harlan Community School District, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Harlan Community School District as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards* we have also issued our report dated December 27, 2011, on our consideration of Harlan Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

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December 27, 2011  
Harlan Community School District  
Independent Auditors' Report

The Management's Discussion and Analysis and budgetary comparison information on pages 8 through 17 and 47 through 49 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Harlan Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2010, (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 8, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Schroer & Associates, P.C.*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Harlan Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2011 Financial Highlights

- General Fund revenues increased \$1,259,697 from \$14,296,464 in fiscal 2010 to \$15,556,161 in fiscal 2011, while General Fund expenditures decreased \$1,122,458 from \$15,070,322 in fiscal 2010 to \$13,947,864 in fiscal 2011. The net increase in revenues and decrease in expenditures resulted in an increase in the District's General Fund balance from \$2,048,864 in fiscal 2010 to \$3,666,661 in fiscal 2011 which is a 78.9 percent increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in property tax revenues as well as the State of Iowa fully funding the state aid formula. The decrease in expenditures was due primarily to wages, and employee benefits.
- The District's General Fund financial transactions resulted in the District's solvency ratio to increase from 11.5% for 2010 to 19.9% for 2011. The District's solvency level indicates the District is able to meet unforeseen financing requirements and presents a sound risk for the timely repayment of short-term obligations. Iowa Association of School Boards, and Iowa Association of School Business Officials recognize a solvency ratio between 8-12% as financially acceptable. The formula for computing solvency ratio was changed with the implementation of the GASB 54 Fund Balance Reporting Requirements and this affects the comparability of the 2010 and 2011 ratios. The increase is due to the change in the formula and the State of Iowa fully funding state aid. The district also did not spend all of the Federal Stimulus funds that were allocated to them during 2011.
- In May 2009 the District issued a \$6,330,000 revenue bond. The 2009 revenue bond proceeds, combined with the 2008 \$7,950,000 general obligation bond proceeds, were used to construct an addition to an elementary building. The estimated project cost was \$11,500,000. Construction was completed in June 2010. Students began attending classes in the building in August 2010. The remaining bond proceeds will be used for renovation of the elementary kitchen and high school facility. The elementary kitchen project started in April 2010 and was completed before the 2010-2011 school year. The District is currently working with architects and engineers on the high school renovation plans.



## USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Harlan Community School District as a whole and present an overall view of the District's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Harlan Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Harlan Community School District acts solely as an agent or custodian for the benefit of those outside of County government.
- Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.
- Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

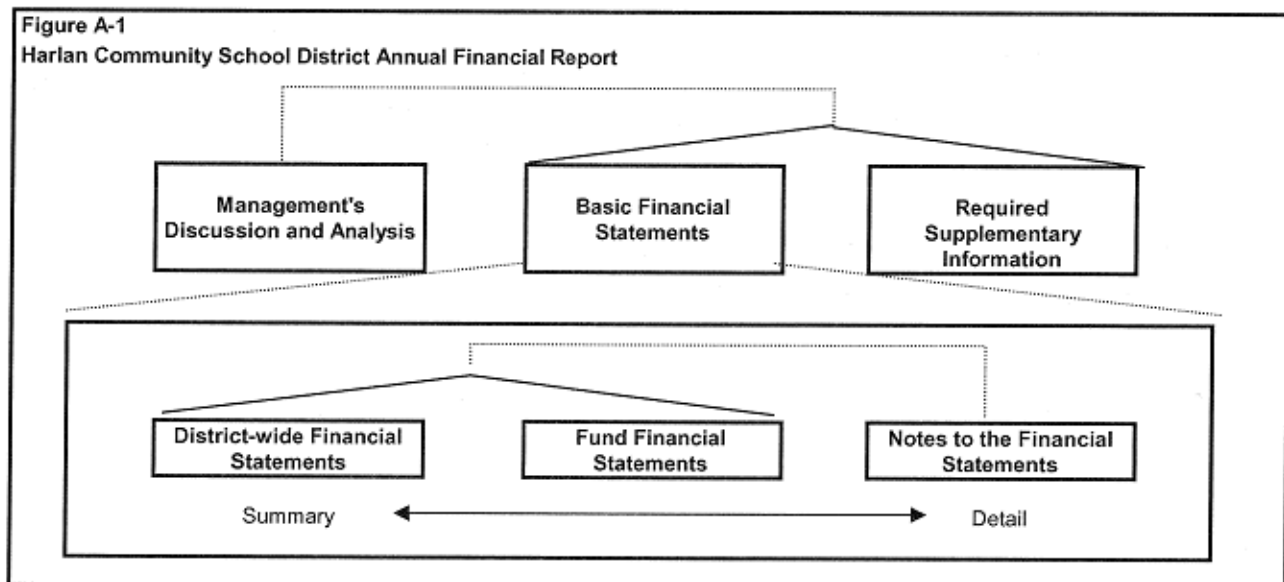


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All additions and reductions during year, regardless of when cash is received or paid

## REPORTING OF DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Statements

The Government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two Government-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively. To assess the District's overall health, additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

1. *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance District's programs. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures, and changes in fund balances.

2. *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way the Government-wide statements. The

2. *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way the Government-wide statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses, and changes in fund net assets, and a statement of cash flows.

3. *Fiduciary funds:* The District is the trustee or fiduciary for assets that belong to others. These funds include Private-Purpose Trust and Agency Funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund – These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## Government-Wide Financial Analysis

**Net assets** – Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2010 and 2011.

	Figure A-3 Condensed Statement of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change	
	June 30,		June 30,		June 30,		June 30,	
	2011	2010	2011	2010	2011	2010	2010-2011	
Current and other assets	\$ 16,067,679	\$ 16,408,082	\$ 436,986	\$ 353,083	\$ 16,504,665	\$ 16,761,165	(1.5%)	
Capital assets	19,041,211	18,348,560	97,816	110,692	19,139,027	18,459,252	3.7%	
Total assets	35,108,890	34,756,642	534,802	463,775	35,643,692	35,220,417	1.2%	
Long-term obligations	14,226,811	14,601,301	-0-	-0-	14,226,811	14,601,301	(2.6%)	
Other liabilities	8,608,631	9,231,354	53,314	57,926	8,661,945	9,289,280	(6.8%)	
Total liabilities	22,835,442	23,832,655	53,314	57,926	22,888,756	23,890,581	(4.2%)	
Net assets:								
Invested in capital assets								
Net of related debt	6,020,251	7,156,851	97,816	110,692	6,118,067	7,267,543	(15.8%)	
Restricted	3,475,671	2,378,861	-0-	-0-	3,475,671	2,378,861	46.1%	
Unrestricted	2,777,526	1,388,275	383,672	295,157	3,161,198	1,683,432	87.8%	
Total net assets	\$ 12,273,448	\$ 10,923,987	\$ 481,488	\$ 405,849	\$ 12,754,936	\$ 11,329,836	12.6%	

The District's combined net assets increased by 12.6 percent or \$1,425,100 over the prior year. The largest portion of the District's net assets is invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$1,096,810 or 46.1 percent from the prior year. The increase was primarily a result of restricting categorical funding and due to the implementation of the GASB 54 Fund Balance Reporting Requirements.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased \$1,477,766 or 87.8 percent. The increase is the result of revenues exceeding expenditures.

**Changes in net assets** – Figure A-4 shows the changes in net assets for the years ended June 30, 2011 and 2010.

Figure A-4  
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total School District	
	June 30,		June 30,		June 30,	
	2011	2010	2011	2010	2011	2010
<b>Revenues:</b>						
Program revenues:						
Charges for services and sales	\$ 1,721,329	\$ 1,676,426	\$ 405,890	\$ 446,923	\$ 2,127,219	\$ 2,123,349
Operating grants, contributions and restricted interest	2,659,133	3,088,418	346,876	304,551	3,006,009	3,392,969
Capital grants, contributions, and restricted interest	74,028	35,473	-0-	-0-	74,028	35,473
General revenue:						
Property tax	6,591,766	5,315,101	-0-	-0-	6,591,766	5,315,101
Local option sales tax	919,706	1,003,920	-0-	-0-	919,706	1,003,920
Unrestricted state grants	5,927,743	5,330,920	-0-	-0-	5,927,743	5,330,920
Unrestricted investment earnings	20,401	29,046	1,266	636	21,667	29,682
Other	70,876	51,959	-0-	-0-	70,876	51,959
Total revenues	<u>17,984,982</u>	<u>16,531,263</u>	<u>754,032</u>	<u>752,110</u>	<u>18,739,014</u>	<u>17,283,373</u>
<b>Program expenses:</b>						
Governmental activities:						
Instruction	10,408,470	11,041,131	-0-	-0-	10,408,470	11,041,131
Support services	4,205,342	4,438,927	-0-	-0-	4,205,342	4,438,927
Non-instructional programs	-0-	-0-	678,393	698,350	678,393	698,350
Other expenses	2,021,709	2,077,960	-0-	-0-	2,021,709	2,077,960
Total expenses	<u>16,635,521</u>	<u>17,558,018</u>	<u>678,393</u>	<u>698,350</u>	<u>17,313,914</u>	<u>18,256,368</u>
<b>Change in net assets</b>	<u>\$ 1,349,461</u>	<u>\$ (1,026,755)</u>	<u>\$ 75,639</u>	<u>\$ 53,760</u>	<u>\$ 1,425,100</u>	<u>\$ (972,995)</u>

Property tax and unrestricted state grants account for 69.6 percent of total revenue. The District's expenses primarily relate to instruction and support services, which account for 83.2 percent of the total expenses.

## Governmental Activities

Revenues for governmental activities were \$17,984,982 for fiscal 2011 and \$16,531,263 for fiscal 2010. Expenses were \$16,635,521 for fiscal 2011 and \$17,558,018 for fiscal 2010. The District revenue exceeded expenditures resulting in a slight increase in financial position.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs, and other expenses.

Figure A-5 Total and Net Cost of Governmental Activities				
	Total Cost of Services		Net Cost of Services	
	June 30,		June 30,	
	2011	2010	2011	2010
Instruction	\$ 10,408,470	\$ 11,041,131	\$ 6,732,218	\$ 6,976,129
Support services	4,205,342	4,438,927	4,114,235	4,378,054
Other expenses	2,021,709	2,077,960	1,334,578	1,403,518
Totals	\$ 16,635,521	\$ 17,558,018	\$ 12,181,031	\$ 12,757,701

- The cost financed by users of the District's programs was \$1,721,329 for 2011 and \$1,676,426 for 2010.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,733,161 for 2011 and \$3,123,891 for 2010.
- The net cost of governmental activities was financed with the following:

		<u>June 30, 2011</u>		<u>June 30, 2010</u>
Property Taxes	\$	6,591,766	\$	5,315,101
Local Option Sales Tax	\$	919,706	\$	1,003,920
State Unrestricted	\$	5,927,743	\$	5,330,920
Interest Income	\$	20,401	\$	29,046
Other Revenue	\$	70,876	\$	51,959

### Business-Type Activities

Revenues of the District's business-type activities were \$754,032 for 2011 and \$752,110 for 2010, and expenses were \$678,393 for 2011 and \$698,350 for 2010. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements, and investment income.

### Individual Fund Analysis

As previously noted, the Harlan Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$7,653,189 for 2011 and \$7,371,358 for 2010. The primary reasons for the increase in combined fund balances in fiscal 2011 are due to the State of Iowa fully funding the state aid and the District not expending all of the stimulus funds it received. The District has seen a slight decrease in enrollment due to changes in legislation. The District will have to rely on State Foundation Aid allowable growth increases, new revenue sources, or use fund balance to cover increases in costs.

## **Governmental Fund Highlights**

- The District's increase in General Fund financial position is the product of many factors. The American Recovery and Reinvestment Act funds received offset some increases in expenditures. The District also saw an increase in wages and employee benefits.
- The General Fund balance increased from \$2,048,864 to \$3,666,661 due in part to the State of Iowa fully funding state aid and the District not spending all of the federal stimulus funds received.
- The Capital Project Fund balance decreased from \$3,918,092 to \$3,479,281 due to bond proceeds being expended. Bond proceeds are being expended for furnishings and equipment, elementary kitchen renovation, and high school renovations. Due to GASB 54 Fund Balance Reporting Requirements, the Physical Plant and Equipment Levy (PPEL) Fund balance is now included in the Capital Project Fund balance. The Physical Plant and Equipment Levy (PPEL) Fund balance increase from \$918,539 in fiscal 2010 to \$1,353,762 in fiscal 2011. The primary reason for this increase was the need to gather funds for future projects.
- The Management Fund balance increased due to an increase in revenues. The District used some of the increase in revenues to finance an early retirement package offering for fiscal 2011.
- The Debt Service Fund balance remained unchanged from the prior fiscal year.

## **Proprietary Fund Highlights**

The School Nutrition Fund net assets increased from \$405,849 at June 30, 2010 to \$481,488 at June 30, 2011, representing an increase of approximately 18.6%. As previously noted, the District experienced increased sales and federal funding.

## **Budgetary Highlights**

In accordance with the Code of Iowa, The Board of Education annually adopts a budget following required public notice and hearing for all funds, except for internal services, private-purpose trusts and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the accrual basis. The District operated within its amended certified budget. A schedule showing the original and final budget amounts compared to the District's actual financial activity are included in the required supplementary information section of this report.

## Capital Asset and Debt Administration

### Capital Assets

At June 30, 2011, the District had invested \$19.14 million, net of accumulated depreciation, in a broad range of capital assets including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year totaled \$801,311.

The original cost of the District's capital assets was \$26.5 million. Governmental funds account for \$26.3 million with the remainder of \$0.2 million in the Proprietary, School Nutrition Fund.

The significant capital assets activities include the High School chiller, Elementary addition, and purchase of vehicles.

		Figure A-6 Capital Assets, net of Depreciation					
		Governmental Activities		Business-type Activities		Total School District	
		June 30,		June 30,		June 30,	
		2011	2010	2011	2010	2011	2010
Land	\$	25,700	\$ 25,700	\$ -0-	\$ -0-	\$ 25,700	\$ 25,700
Improvements other than buildings	\$	278,705	\$ 301,794	\$ -0-	\$ -0-	\$ 278,705	\$ 301,794
Construction in Progress	\$	133,939	\$ 729,382	\$ -0-	\$ -0-	\$ 133,939	\$ 729,382
Buildings	\$	17,869,203	\$ 16,571,829	\$ -0-	\$ -0-	\$ 17,869,203	\$ 16,571,829
Furniture and equipment	\$	733,664	\$ 719,855	\$ 97,816	\$ 110,692	\$ 831,480	\$ 830,547
Totals	\$	19,041,211	\$ 18,348,560	\$ 97,816	\$ 110,692	\$ 19,139,027	\$ 18,459,252

### Long-Term Debt

At June 30, 2011 the District had \$14,226,811 general obligation and other long-term debt outstanding. This represents a decrease of approximately 2.6% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

		Figure A-7 Outstanding Long-Term Obligations		
		Total School District		Total Change
		2011	2010	2011-2010
General obligation bonds	\$	6,748,590	7,179,722	(6.0) %
Revenue Bonds	\$	7,235,515	7,230,408	0.1 %
Early retirement benefits	\$	195,820	126,492	54.8 %
Compensated absences	\$	46,886	64,679	(27.5) %
Totals	\$	14,226,811	14,601,301	(2.6) %



### **Factors Bearing on the District's Future**

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District administration is taking steps to balance the District's revenues and expenditures and keep the District in a healthy financial position.
- The District has seen a slight decrease in enrollment. The District's funding for FY13 will be based on the decreased enrollment.
- The District is closely monitoring the uncertainty of state and local finances in light of the national and global financial situation. It is uncertain whether or not there will be additional reductions made to the fiscal year 2012 budget.
- The District's state wide penny sales tax receipts are sufficient enough to pay the current general obligation and revenue bonds. As a result the District will not assess any property tax levy for debt service repayment.
- The District has just completed the renovation of the elementary kitchen and HVAC system at the high school. These projects were funded by the revenue bonds proceeds received in FY2009. The revenue bonds will be repaid by the state wide penny sales tax.

### **Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Brian Gubbels, Director of Finance, Harlan Community School District, 2102 Durant Street, Harlan, Iowa 51537.

## **BASIC FINANCIAL STATEMENTS**

**HARLAN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2011**

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 8,984,542	424,090	9,408,632
Receivables:			
Property tax:			
Delinquent	73,181	-	73,181
Succeeding year	5,925,173	-	5,925,173
Accounts	2,086	-	2,086
Accrued interest	3,051	-	3,051
Due from other governments	1,034,889	-	1,034,889
Prepaid expense	44,757	-	44,757
Inventories	-	12,896	12,896
Capital assets, net of accumulated depreciation	19,041,211	97,816	19,139,027
Total assets	35,108,890	534,802	35,643,692
<b>Liabilities</b>			
Accounts payable	232,544	1,129	233,673
Salaries and benefits payable	1,429,034	39,466	1,468,500
Accrued interest payable	194,141	-	194,141
Deferred revenue:			
Succeeding year property tax	5,925,173	-	5,925,173
Other	827,739	12,719	840,458
Long-term liabilities:			
Portion due within one year:			
Bonds payable	450,000	-	450,000
Other post employment benefits	38,897	-	38,897
Compensated absences	46,886	-	46,886
Portion due after one year:			
Bonds payable, net of unamortized discount	13,534,105	-	13,534,105
Other post employment benefits	156,923	-	156,923
Total liabilities	22,835,442	53,314	22,888,756
<b>Net Assets</b>			
Invested in capital assets, net of related debt	6,020,251	97,816	6,118,067
Restricted for:			
Categorical funding	602,934	-	602,934
Donated purposes	43,495	-	43,495
Debt service	1,217,582	-	1,217,582
Capital projects	356,281	-	356,281
Physical plant and equipment levy	750,429	-	750,429
Management levy	373,968	-	373,968
Student activities	130,982	-	130,982
Unrestricted	2,777,526	383,672	3,161,198
Total net assets	\$ 12,273,448	481,488	12,754,936

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011**

	<u>Expenses</u>	<u>Charges for Service</u>	<u>Program Revenues</u> Operating Grants, Contributions and Restricted Interest
<b>Functions/Programs</b>			
Governmental activities:			
Instruction:			
Regular instruction	\$ 6,656,335	999,875	1,667,951
Special instruction	2,031,797	151,414	275,006
Other instruction	1,720,338	550,965	31,041
	<u>10,408,470</u>	<u>1,702,254</u>	<u>1,973,998</u>
Support services:			
Student services	379,865	-	23,255
Instructional staff services	365,803	-	-
Administration services	1,495,547	-	-
Operation and plant maintenance	1,178,942	7,896	-
Transportation services	781,188	11,179	48,777
Other support services	3,997	-	-
	<u>4,205,342</u>	<u>19,075</u>	<u>72,032</u>
Other expenditures:			
Facilities acquisition	232,932	-	-
Long-term debt interest	621,096	-	10
AEA flowthrough	613,093	-	613,093
Depreciation (unallocated)*	554,588	-	-
	<u>2,021,709</u>	<u>-</u>	<u>613,103</u>
Total governmental activities	<u>16,635,521</u>	<u>1,721,329</u>	<u>2,659,133</u>
Business-type activities:			
Non-instructional programs:			
Nutrition services	678,393	405,890	346,876
Total	<u>\$ 17,313,914</u>	<u>2,127,219</u>	<u>3,006,009</u>
<b>General Revenues:</b>			
Property tax levied for:			
General purposes			
Capital outlay			
Local option sales tax			
Unrestricted state grants			
Unrestricted investment earnings			
Other			
Gain (loss) on sale of assets			
Total general revenues			
Change in net assets			
Net assets beginning of year			
Net assets end of year			

\* This amount excludes the depreciation that is included in the direct expense of the various programs

Capital Grants Contributions and Restricted Interest	Net (Expense) Revenue and Changes in Net Assets		
	Governmental Activities	Business-Type Activities	Total
-	(3,988,509)	-	(3,988,509)
-	(1,605,377)	-	(1,605,377)
-	(1,138,332)	-	(1,138,332)
-	(6,732,218)	-	(6,732,218)
-	(356,610)	-	(356,610)
-	(365,803)	-	(365,803)
-	(1,495,547)	-	(1,495,547)
-	(1,171,046)	-	(1,171,046)
-	(721,232)	-	(721,232)
-	(3,997)	-	(3,997)
-	(4,114,235)	-	(4,114,235)
74,028	(158,904)	-	(158,904)
-	(621,086)	-	(621,086)
-	-	-	-
-	(554,588)	-	(554,588)
74,028	(1,334,578)	-	(1,334,578)
74,028	(12,181,031)	-	(12,181,031)
-	-	74,373	74,373
74,028	(12,181,031)	74,373	(12,106,658)
\$	6,192,176	-	6,192,176
	399,590	-	399,590
	919,706	-	919,706
	5,927,743	-	5,927,743
	20,401	1,266	21,667
	26,375	-	26,375
	44,501	-	44,501
	13,530,492	1,266	13,531,758
	1,349,461	75,639	1,425,100
	10,923,987	405,849	11,329,836
\$	12,273,448	481,488	12,754,936

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT  
GOVERNMENTAL FUND BALANCE SHEET  
YEAR ENDED JUNE 30, 2011**

	General	Capital Projects	Nonmajor	Total
<b>ASSETS</b>				
Assets:				
Cash and pooled investments	\$ 5,141,072	3,313,845	529,625	8,984,542
Receivables:				
Property tax:				
Delinquent	63,382	4,727	5,072	73,181
Succeeding year	5,116,477	406,187	402,509	5,925,173
Accounts	1,048	-	1,038	2,086
Accrued interest	797	2,254	-	3,051
Due from other governments	811,930	222,959	-	1,034,889
Prepaid expenses	38,195	-	6,562	44,757
Total assets	\$ 11,172,901	3,949,972	944,806	16,067,679
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 155,709	64,504	12,331	232,544
Salaries and benefits payable	1,406,315	-	22,719	1,429,034
Deferred revenue:				
Succeeding year property tax	5,116,477	406,187	402,509	5,925,173
Succeeding year income surtax	575,514	-	-	575,514
Other	252,225	-	-	252,225
Total liabilities	7,506,240	470,691	437,559	8,414,490
Fund balances:				
Nonspendable – prepaids	38,195	-	6,562	44,757
Restricted for:				
Categorical funding	602,934	-	-	602,934
Donated purposes	43,495	-	-	43,495
Debt service	-	1,409,426	2,297	1,411,723
Capital projects	-	1,319,426	-	1,319,426
Physical plant and equipment	-	750,429	-	750,429
Management levy purposes	-	-	367,406	367,406
Student activities	-	-	130,982	130,982
Unassigned	2,982,037	-	-	2,982,037
Total fund balances	3,666,661	3,479,281	507,247	7,653,189
Total liabilities and fund balances	\$ 11,172,901	3,949,972	944,806	16,067,679

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET -  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
YEAR ENDED JUNE 30, 2011**

<b>Total fund balances of governmental funds</b>	\$	7,653,189
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*Amounts reported for governmental activities in the Statement of Net Assets are different because:*

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		19,041,211
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Accrued interest payable on long-term liabilities is not due and payable in the current period, and therefore, is not reported as a liability in the governmental funds.		(194,141)
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Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period, and therefore, are not reported as liabilities of the governmental funds.		(14,226,811)
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<b>Net assets of governmental activities</b>	\$	<u>12,273,448</u>
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**HARLAN COMMUNITY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2011**

	General	Capital Projects	Nonmajor	Total
Revenues:				
Local sources:				
Local tax	\$ 5,778,093	1,319,346	414,759	7,512,198
Tuition	1,044,614	-	-	1,044,614
Other	202,768	74,028	576,421	853,217
State sources	7,794,162	238	254	7,794,654
Federal sources	736,524	-	-	736,524
Total revenues	15,556,161	1,393,612	991,434	17,941,207
Expenditures:				
Current:				
Instruction:				
Regular instruction	6,407,566	-	153,804	6,561,370
Special instruction	2,025,680	-	-	2,025,680
Other instruction	1,100,200	28,102	572,836	1,701,138
	9,533,446	28,102	726,640	10,288,188
Support services:				
Student services	375,374	-	-	375,374
Instructional staff services	371,410	-	-	371,410
Administration services	1,307,264	-	188,685	1,495,949
Operation and maintenance of plant services	1,084,754	72,410	39,426	1,196,590
Transportation services	658,526	51,062	16,498	726,086
Other support services	3,997	-	-	3,997
	3,801,325	123,472	244,609	4,169,406
Other expenditures:				
Facilities acquisition	-	1,584,854	-	1,584,854
Long-term debt:				
Principal	-	-	435,000	435,000
Interest and fiscal charges	-	-	613,336	613,336
AEA flowthrough	613,093	-	-	613,093
Total	613,093	1,584,854	1,048,336	3,246,283
	13,947,864	1,736,428	2,019,585	17,703,877
Excess (deficiency) of revenues over (under) expenditures	1,608,297	(342,816)	(1,028,151)	237,330
Other financing sources (uses):				
Sale of fixed assets	9,500	35,001	-	44,501
Operating transfers in	-	-	1,049,535	1,049,535
Operating transfers out	-	(1,049,535)	-	(1,049,535)
Total other financing sources (uses)	9,500	(1,014,534)	1,049,535	44,501
Net change in fund balances	1,617,797	(1,357,350)	21,384	281,831
Fund balances beginning of year	2,048,864	4,836,631	485,863	7,371,358
Fund balances end of year	\$ 3,666,661	3,479,281	507,247	7,653,189

See notes to financial statements



**HARLAN COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES -  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011**

**Net change in fund balances - total governmental funds** **\$ 281,831**

*Amounts reported for governmental activities in the Statement of Activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 1,477,938	
Depreciation expense	<u>(785,287)</u>	
		692,651

Certain delinquent property tax not collected for several months after year end is not considered available revenue in the governmental funds and is deferred. It is recorded as revenue in the Statement of Activities.

(726)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.

435,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

(7,760)

Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in the governmental funds.

Other post employment benefits	(69,328)	
Compensated absences	<u>17,793</u>	
		<u>(51,535)</u>

**Change in net assets of governmental activities** **\$ 1,349,461**

**HARLAN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS - PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2011**

	<u>School Nutrition</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 424,090
Inventories	12,896
Capital assets, net of accumulated depreciation	<u>97,816</u>
Total assets	534,802
<b>Liabilities</b>	
Accounts payable	1,129
Salaries and benefits payable	39,466
Deferred revenue	<u>12,719</u>
Total liabilities	<u>53,314</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	97,816
Unrestricted	<u>383,672</u>
Total net assets	\$ <u>481,488</u>

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN NET ASSETS - PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2011**

	<u>School Nutrition</u>
Operating revenue:	
Local sources:	
Charges for service	\$ 405,890
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	227,217
Benefits	32,221
Purchased services	14,885
Supplies	387,502
Miscellaneous	544
Depreciation	16,024
Total operating expenses	<u>678,393</u>
Operating loss	(272,503)
Non-operating revenue:	
State sources	7,742
Federal sources	339,134
Interest on investments	1,266
Total non-operating revenue	<u>348,142</u>
Change in net assets	75,639
Net assets beginning of year	<u>405,849</u>
Net assets end of year	\$ <u>481,488</u>

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS - PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2011**

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 408,763
Cash payments to employees for services	(264,608)
Cash payments to suppliers for goods or services	(360,781)
Net cash used in operating activities	<u>(216,626)</u>
Cash flows from non-capital financing activities:	
State grants received	7,742
Federal grants received	302,986
Net cash provided by non-capital financing sources	<u>310,728</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(3,148)</u>
Cash flows from investing activities:	
Interest on investments	<u>1,266</u>
Net increase in cash and cash equivalents	92,220
Cash and cash equivalents, beginning of year	<u>331,870</u>
Cash and cash equivalents, end of year	\$ <u>424,090</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (272,503)
Commodities used	36,148
Depreciation	16,024
Decrease in receivables	100
Increase in inventories	8,217
Decrease in payables	(2,215)
Decrease in salaries and benefits payable	(5,170)
Increase in deferred revenue	2,773
Net cash used in operating activities	\$ <u>(216,626)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2011, the District received \$36,148 of federal commodities.

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2011**

	Private Purpose Trust <u>Scholarship</u>	<u>Agency</u>
<b>Assets</b>		
Cash and pooled investments	\$ 39,288	\$ 4,880
<b>Liabilities</b>		
Accounts payable	-	-
Due to other governments	-	4,880
Total liabilities	<u>-</u>	<u>4,880</u>
<b>Net Assets</b>		
Reserved for scholarships	\$ <u>39,288</u>	\$ <u>-</u>

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2011**

	Private Purpose Trust <u>Scholarship</u>
Additions:	
Local sources:	
Gifts and contributions	\$ 4,502
Interest	<u>143</u>
Total additions	4,645
Deductions:	
Instruction:	
Regular:	
Scholarship awarded	<u>4,458</u>
Change in net assets	187
Net assets beginning of year	<u>39,101</u>
Net assets end of year	\$ <u>39,288</u>

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2011**

**NOTE 1 Summary of Significant Accounting Policies**

The Harlan Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades pre-kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Harlan, Iowa and the predominately agricultural territory in Harrison and Shelby Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Harlan Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Harlan Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in jointly governed organizations that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Harrison and Shelby Counties Assessor's Conference Boards.

**B. Basis of Presentation**

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

**HARLAN COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2011**

**NOTE 1 Summary of Significant Accounting Policies (continued)**

**B. Basis of Presentation – (continued)**

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.



**HARLAN COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2011**

**NOTE 1 Summary of Significant Accounting Policies (continued)**

**B. Basis of Presentation - (continued)**

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

**C. Measurement Focus and Basis of Accounting**

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

**HARLAN COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2011**

**NOTE 1 Summary of Significant Accounting Policies (continued)**

**C. Measurement Focus and Basis of Accounting - (continued)**

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

**D. Assets, Liabilities and Fund Equity**

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

**HARLAN COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2011**

**NOTE 1 Summary of Significant Accounting Policies (continued)**

D. Assets, Liabilities and Fund Equity - (continued)

Cash, Pooled Investments and Cash Equivalents - (continued)

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2010.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

**HARLAN COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2011**

**NOTE 1 Summary of Significant Accounting Policies (continued)**

**D. Assets, Liabilities and Fund Equity - (continued)**

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	1,500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2011. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

**HARLAN COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2011**

**NOTE 1 Summary of Significant Accounting Policies (continued)**

**D. Assets, Liabilities and Fund Equity - (continued)**

Long-term liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts not in spendable form, such as inventories and prepaid expenses.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resource are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts which can be used for specific purposes determined pursuant to constraints formally imposed by the Board of Education through resolution approved to year end. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned – All amounts not included in other spendable classifications.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

**E. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements did not exceed the budgeted amounts. The District did not exceed its General Fund unspent authorized budget.

**NOTE 2 Cash and Pooled Investments**

The District's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance, or by the State Sinking Fund, in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

**HARLAN COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2011**

**NOTE 2 Cash and Pooled Investments - Continued**

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2011, the District had investments in the Iowa Schools Joint Investment Trust as follows:

<u>Type</u>	<u>Amortized Cost</u>
Diversified Portfolio	\$ <u>159,764</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk

The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk

The investment in the Iowa Schools Joint Investment was rated AAA by Moody's Investors Service.

**NOTE 3 Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ <u>1,049,535</u>

Transfers generally move revenues from the fund statutorily required to collect the resources, to the fund statutorily required to expend the resources.

**HARLAN COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2011**

**NOTE 4 Capital Assets**

Capital assets activity for the year ended June 30, 2011 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities</b>				
Capital assets not being depreciated:				
Land	\$ 25,700	-	-	25,700
Construction in progress	729,382	133,940	729,382	133,940
Total capital assets not being depreciated	755,082	133,940	729,382	159,640
Capital assets being depreciated:				
Buildings	20,804,549	1,805,382	193,890	22,416,041
Improvements other than buildings	680,639	-	-	680,639
Furniture and equipment	3,233,692	267,998	34,694	3,466,996
Total capital assets being depreciated	24,718,880	2,073,380	228,584	26,563,676
Less accumulated depreciation for:				
Buildings	4,232,720	508,008	193,890	4,546,838
Improvements other than buildings	378,845	23,089	-	401,934
Furniture and equipment	2,513,837	254,190	34,694	2,733,333
Total accumulated depreciation	7,125,402	785,287	228,584	7,682,105
Total capital assets being depreciated, net	17,593,478	1,288,093	-	18,881,571
Governmental activities capital assets, net	\$ 18,348,560	1,422,033	729,382	19,041,211
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Business-type activities:</b>				
Furniture and equipment	\$ 252,829	3,148	-	255,977
Less accumulated depreciation	142,137	16,024	-	158,161
Business-type activities capital assets, net	\$ 110,692	(12,876)	-	97,816

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 57,720
Other	14,612
Support Services:	
Student services	1,611
Administration	1,197
Operation and maintenance of plant	42,453
Transportation	113,106
	230,699
Unallocated depreciation	554,588
Total governmental activities depreciation expense	\$ 785,287
Business-type activities:	
Food services	\$ 16,024

**HARLAN COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2011**

**NOTE 5 Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2011 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 7,230,000	-	435,000	6,795,000	450,000
Unamortized discount	(50,278)	3,868	-	(46,410)	-
Revenue bonds	6,330,000	-	-	6,330,000	-
Unamortized discount	(99,592)	5,107	-	(94,485)	-
Quality Zone Academy bonds	1,000,000	-	-	1,000,000	-
OPEB	126,492	101,287	31,959	195,820	38,897
Compensated absences	64,679	-	17,793	46,886	46,886
Total	\$ 14,601,301	110,262	484,752	14,226,811	535,783

General Obligation Bonds

Details of the District's June 30, 2011 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issued February 1, 2008			
	Interest Rate	Principal	Interest	Discount Amortization
2012	3.50%	\$ 450,000	\$ 252,578	3,868
2013	3.50%	470,000	236,828	3,868
2014	3.50%	490,000	220,378	3,868
2015	3.50%	510,000	203,228	3,868
2016	3.50%	530,000	185,378	3,868
2017-2021	3.60-3.90%	2,980,000	623,170	19,340
2022-2023	4.00%	1,365,000	82,400	7,730
		\$ 6,795,000	\$ 1,803,960	46,410

Revenue Bonds

Details of the District's June 30, 2011 local option sales and service tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issued May 1, 2009		Total	
	Interest Rate	Principal	Interest	Discount Amortization
2012	\$ -	\$ -	\$ 346,185	\$ 5,107
2013	-	-	346,185	5,107
2014	-	-	346,185	5,107
2015	5.00%	85,000	344,060	5,107
2016	5.00%	90,000	339,685	5,107
2017-2021	5.00-5.10%	525,000	1,623,993	25,535
2022-2026	5.00-5.40%	2,390,000	1,334,650	25,535
2027-2030	5.50-5.625%	3,240,000	456,187	17,880
		\$ 6,330,000	\$ 5,137,130	\$ 94,485



**HARLAN COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2011**

**NOTE 5 Long-Term Liabilities (continued)**

The District has pledged future local option (statewide) sales and service tax revenues to repay the \$6,330,000 bonds issued in May 2009. The bonds were issued for the purpose of financing a portion of the costs of a new school. The bonds are payable solely from the proceeds of the local option (statewide) sales and services tax revenues received by the District and are payable through 2030. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 100 percent of the local option (statewide) sales and service tax revenues. The total principal and interest remaining to be paid on the note is \$11,467,130. For the current year, interest paid on the bonds and total statewide sales and services revenue were \$346,186 and \$919,706, respectively.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) \$633,000 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The accrued interest on the revenue bond proceeds shall be placed into a sinking account. The balance of the proceeds shall be deposited to the project account.
- b) All proceeds from the local option (statewide) sales and services tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

The District has complied with the above provisions.

Qualified Zone Academy Bond

During the year ended June 30, 2002, the District issued zero interest Qualified Zone Academy Bonds (QZAB). Annual transfers of \$58,455 are made to an escrow agent to pay the indebtedness due November 11, 2015, of \$1,000,000. Bond proceeds are to be used only for the equipping, rehabilitation and repairs of the school designated as the "Qualified Zone Academy." The school is in compliance with the above provisions.

**HARLAN COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2011**

**NOTE 6 Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.50% of their annual salary and the District is required to contribute 6.95% of annual covered payroll. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010, and 2009, were \$639,303, \$669,636, and \$611,932, respectively, equal to the required contributions for each year.

**NOTE 7 Termination Benefits**

In January 2011, the District approved a voluntary early retirement plan for employees. The plan was offered for one year. Eligible employees must have completed at least 10 years of full time service to the District, must have reached the age of fifty-five by June 30, 2010, and be first year eligible for IPERS benefits. The applications were subject to approval by the Board of Education and were to be submitted by February 15, 2011. The retirement benefit equaled a one-time payment of \$20,000 to a deferred plan on behalf of each electing employee. Eight employees were granted the benefit. Early retirement expenditures for the year ended June 30, 2011 totaled \$160,000, with no liability outstanding.

**NOTE 8 Risk Management**

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 9 Other Postemployment Benefits (OPEB)**

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. The District pays for all or a portion of active employees' coverage. Retired members can continue their coverage at their own expense and also receive an explicit subsidy of \$83 per month staying within plan coverage and \$168 per month if they elect to discontinue coverage within the district plan. There are 152 active and 20 retired members in the plan, and 2 retirees elected coverage outside the plan. Participants must be age 55 or older at retirement.

**HARLAN COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2010**

**NOTE 9 Other Postemployment Benefits (OPEB) – Continued**

The medical and prescription drug coverage is provided through a fully-insured plan with Wellmark. The same premium is paid for retirees under age 65 for the medical and prescription drug benefit as active employees, which results in an implicit subsidy. The OPEB liability includes both the explicit and the implicit subsidies.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 104,817
Interest on net OPEB obligation	2,995
Adjustment to annual required contribution	<u>(6,525)</u>
Annual OPEB cost	101,287
Contributions made	<u>(31,959)</u>
Increase in net OPEB obligation	69,328
Net OPEB obligation, beginning of year	<u>126,492</u>
Net OPEB obligation, end of year	\$ <u>195,820</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2011, the District made an explicit contribution of \$21,917 and an implicit contribution of \$10,042 to the medical plan. Plan members eligible for benefits contributed \$78,345, or 78% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 96,482	34.7 %	\$ 62,965
2010	100,757	36.7 %	126,492
2011	101,287	31.5 %	195,820

**HARLAN COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2011**

**NOTE 9 Other Postemployment Benefits (OPEB) – Continued**

Funding Status and Funding Progress - As of July 1, 2008, the most recent actuarial valuation for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$675,021, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$675,021. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$8,889,600, and the ratio of the UAAL to covered payroll was 7.59%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2008 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

The most recent aging curve study was presented by the Society of Actuaries in February 2006. This study provided the basis for the "aging cost assumption" used in the valuation.

Projected claim costs of the medical plan are \$403 per month for retirees. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**NOTE 10 Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$613,093 for the year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**HARLAN COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2011**

**NOTE 11 Construction Commitment**

The District has entered into various contracts for projects within the District. As of June 30, 2011, costs of \$133,939 had been incurred against the contracts. The balance of \$52,730 remaining at June 30, 2011 will be paid as work on the projects progresses.

**NOTE 12 Categorical Funding**

The District ending balances for categorical funding by project as of the year ended June 30, 2011 are as follows:

Project	Amount
Limited English proficiency	\$ 48,343
Home school assistance	111,828
At-risk formula supplementary weighting	85,439
Gifted and talented	71,016
Dropout prevention	91,207
Beginning teacher mentoring	1,151
Teacher salary supplement	4,253
Beginning administrator mentoring	2,427
Non-public transportation	48,777
Textbook aid - non-public students	324
Vocation aid	12,909
Model core curriculum	76,564
Teacher quality professional development	45,941
Market factor	2,755
	<u>\$ 602,934</u>

**NOTE 13 Accounting Change/Restatement**

Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	Capital Projects	Special Revenue, Physical Plant and Equipment Levy
Balances June 30, 2010, as previously reported	\$ 3,918,092	918,539
Change in fund type classification per implementation of GASB Statement No. 54	<u>918,539</u>	<u>(918,539)</u>
Balances July 1, 2010, as restated	<u>\$ 4,836,631</u>	<u>-</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**HARLAN COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN BALANCES - BUDGET AND ACTUAL -  
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2011**

	Governmental Fund Types Actual	Proprietary Fund Types Actual	Total Actual
Receipts:			
Local sources	\$ 9,410,029	407,156	9,817,185
State sources	7,794,654	7,742	7,802,396
Federal sources	736,524	339,134	1,075,658
Total receipts	<u>17,941,207</u>	<u>754,032</u>	<u>18,695,239</u>
Disbursements:			
Instruction	10,288,188	-	10,288,188
Support services	4,169,406	-	4,169,406
Non-instructional programs	-	678,393	678,393
Other expenditures	3,246,283	-	3,246,283
Total disbursements	<u>17,703,877</u>	<u>678,393</u>	<u>18,382,270</u>
Excess (deficiency) of receipts over (under) disbursements	237,330	75,639	312,969
Other financing sources, net	<u>44,501</u>	<u>-</u>	<u>44,501</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	281,831	75,639	357,470
Balances beginning of year	<u>7,371,358</u>	<u>405,849</u>	<u>7,777,207</u>
Balances end of year	<u>\$ 7,653,189</u>	<u>481,488</u>	<u>8,134,677</u>

See Accompanying Independent Auditors' Report

Budgeted Amounts		Final to Actual Variance Positive (Negative)
Original	Final	
9,570,092	9,570,092	247,093
6,754,890	6,754,890	1,047,506
563,000	563,000	512,658
16,887,982	16,887,982	1,807,257
10,540,000	10,300,000	11,812
4,182,400	4,422,400	252,994
800,000	800,000	121,607
3,438,317	4,749,020	1,502,737
18,960,717	20,271,420	1,889,150
(2,072,735)	(3,383,438)	3,696,407
800	800	43,701
(2,071,935)	(3,382,638)	3,740,108
6,195,810	6,195,810	1,581,397
4,123,875	2,813,172	5,321,505



**HARLAN COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2011**

This budgetary comparison is presented as Required Supplementary Information in accordance with *Governmental Accounting Standards Board (GASB) Statement No. 41* for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment, increasing budgeted expenditures by \$1,310,703.

During the year ended June 30, 2011, disbursements did not exceed the budgeted amounts and the District did not exceed its General Fund unspent authorized budget.

**HARLAN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FUNDING PROGRESS FOR THE  
RETIREE HEALTH PLAN (In Thousands)  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2011**

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	07/01/08	\$ -	\$ 843	\$ 843	0.0%	\$ 9,436	8.90%
2010	07/01/08	\$ -	\$ 903	\$ 903	0.0%	\$ 9,736	9.23%
2011	07/01/08	\$ -	\$ 675	\$ 675	0.0%	\$ 8,890	7.59%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

## **OTHER SUPPLEMENTARY INFORMATION**

**HARLAN COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2011**

	Special Revenue			
	Management	Student	Debt	
	Levy	Activity	Service	Total
<b>Assets</b>				
Assets:				
Cash and pooled investments	\$ 385,053	142,275	2,297	529,625
Receivables:				
Property Tax:				
Delinquent	5,072	-	-	5,072
Succeeding year	402,509	-	-	402,509
Accounts	-	1,038	-	1,038
Prepaid expenses	6,562	-	-	6,562
Total assets	\$ 799,196	143,313	2,297	944,806
<b>Liabilities and Fund Equity</b>				
Liabilities:				
Accounts payable	\$ -	12,331	-	12,331
Deferred revenue:	22,719	-	-	22,719
Succeeding year property tax	402,509	-	-	402,509
Total liabilities	425,228	12,331	-	437,559
Fund balances:				
Nonspendable-prepays	6,562	-	-	6,562
Restricted for:				
Management levy purposes	367,406	-	-	367,406
Student activities	-	130,982	-	130,982
Debt service	-	-	2,297	2,297
Total fund balances	373,968	130,982	2,297	507,247
Total liabilities and fund equity	\$ 799,196	143,313	2,297	944,806

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT  
COMBINING SCHEDULE OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2011**

	Special Revenue			
	Management Levy	Student Activity	Debt Service	Total
Revenues:				
Local sources:				
Local Tax	\$ 414,759	-	-	414,759
Other	24,789	551,622	10	576,421
State sources	254	-	-	254
Total revenues	439,802	551,622	10	991,434
Expenditures:				
Current:				
Instruction:				
Regular instruction	153,804	-	-	153,804
Other instruction	-	572,836	-	572,836
	153,804	572,836	-	726,640
Support services:				
Administration services	187,485	-	1,200	188,685
Operation and maintenance of plant services	39,426	-	-	39,426
Transportation services	16,498	-	-	16,498
	243,409	-	1,200	244,609
Other expenditures:				
Facilities acquisition				
Long-term debt:				
Principal	-	-	435,000	435,000
Interest and fiscal charges	-	-	613,336	613,336
	-	-	1,048,336	1,048,336
Total expenditures	397,213	572,836	1,049,536	2,019,585
Excess (deficiency) of revenues over (under) expenditures	42,589	(21,214)	(1,049,526)	(1,028,151)
Other financing sources (uses):				
Operating transfers in	-	-	1,049,535	1,049,535
Net changes in fund balances	42,589	(21,214)	9	21,384
Fund balances beginning of year	331,379	152,196	2,288	485,863
Fund balances end of year	\$ 373,968	130,982	2,297	507,247

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
CAPITAL PROJECT ACCOUNTS  
YEAR ENDED JUNE 30, 2011**

		Capital Projects			
		Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Other Capital Projects	Total
<b>Assets</b>					
Assets:					
Cash and pooled investments	\$	1,325,122	1,409,567	579,156	3,313,845
Receivables					
Property tax:					
Delinquent		-	4,727	-	4,727
Succeeding year		-	406,187	-	406,187
Accrued interest		1,916	338	-	2,254
Due from other governments		222,959	-	-	222,959
Total assets		1,549,997	1,820,819	579,156	3,949,972
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable		-	60,870	3,634	64,504
Deferred revenue:					
Succeeding year property tax		-	406,187	-	406,187
Total liabilities		-	467,057	3,634	470,691
Fund balances:					
Restricted for:					
Debt service		806,093	603,333	-	1,409,426
Capital projects		743,904	-	575,522	1,319,426
Physical plant and equipment		-	750,429	-	750,429
Total fund balances		1,549,997	1,353,762	575,522	3,479,281
Total liabilities and fund balances	\$	1,549,997	1,820,819	579,156	3,949,972

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT  
COMBINING SCHEDULE OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - CAPITAL PROJECT ACCOUNTS  
YEAR ENDED JUNE 30, 2011**

	Capital Projects			
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Other Capital Projects	Total
Revenues:				
Local sources:				
Local Tax	\$ 919,706	399,640	-	1,319,346
Other	3,741	22,459	47,828	74,028
State sources	-	238	-	238
Total revenues	923,447	422,337	47,828	1,393,612
Expenditures:				
Current:				
Instruction:				
Other instruction	-	28,102	-	28,102
Support services:				
Operation and maintenance of plant services	-	72,410	-	72,410
Transportation services	-	51,062	-	51,062
	-	123,472	-	123,472
Other expenditures:				
Facilities acquisition	750	170,541	1,413,563	1,584,854
Total expenditures	750	322,115	1,413,563	1,736,428
Excess (deficiency) of revenues over (under) expenditures	922,697	100,222	(1,365,735)	(342,816)
Other financing sources (uses):				
Sale of fixed assets	-	35,001	-	35,001
Operating transfers in	-	300,000	-	300,000
Operating transfers out	(1,049,535)	-	(300,000)	(1,349,535)
Total other financing sources (uses)	(1,049,535)	335,001	(300,000)	(1,014,534)
Net changes in fund balances	(126,838)	435,223	(1,665,735)	(1,357,350)
Fund balances beginning of year	1,676,835	918,539	2,241,257	4,836,631
Fund balances end of year	\$ 1,549,997	1,353,762	575,522	3,479,281

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT**  
**SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND - STUDENT ACTIVITY ACCOUNTS**  
**YEAR ENDED JUNE 30, 2011**

	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Drama	\$ 1,724	859	824	1,759
HS vocal music	75	3,080	2,952	203
MS vocal music	467	253	-	720
HS instrumental music	3,708	8,775	11,891	592
HS jazz	1,983	3,320	5,303	-
MS jazz	140	77	-	217
MS flag corp	49	-	-	49
HS flag corp	-	378	362	16
Baton	670	90	760	-
FB band resale	-	521	521	-
Athletics	22,330	178,929	198,401	2,858
Activity tickets	-	17,299	17,299	-
Splash splash auto detailing	1,676	1,154	1,144	1,686
FB Holocaust memorial rock project	968	5	-	973
Cheerleaders	1,703	10,290	11,993	-
FFA	14,867	86,619	88,050	13,436
Harpoon	19,983	9,373	5,641	23,715
Entrepreneurial vending	3	11,872	11,752	123
National honor society	1	885	886	-
BPA	277	28,030	27,929	378
Science club	5	-	-	5
Spanish club	2,649	13	33	2,629
Student council	1,019	16,209	16,974	254
Pom pom	1,283	4,055	5,338	-
Best buddies	-	677	300	377
Key Club	3,241	4,104	4,329	3,016
For the birds	1,176	1,207	1,283	1,100
Speech	-	388	388	-
FCCLA Club	1,038	1,867	1,246	1,659
Friends of Rachele	1,695	9	-	1,704
Class of 2010	526	-	421	105
Class of 2011	3,478	17	-	3,495
Class of 2012	2,026	10	-	2,036
Class of 2013	1,050	-	-	1,050
Support the troops	-	202	202	-
Prom	4,276	13,560	14,793	3,043
HS miscellaneous	367	816	994	189
Hosa fund	677	37,451	37,093	1,035
Jel fund	617	474	510	581
Cyclone corner store	8,531	49,879	52,372	6,038
Concessions	10,167	18,501	17,538	11,130
Vending	3,396	7,647	6,016	5,027
MS cheerleading	3,542	174	1,201	2,515
MS vending	2,632	600	411	2,821
MS student council	10,461	15,188	9,841	15,808
MS yearbook	3,570	3,464	2,816	4,218
MS drama	265	731	512	484
MS building improvements	744	4	-	748
MS builders fund	309	1	-	310
MS student fund	4,751	7,081	7,410	4,422
New Park student fund	4,622	2,642	2,196	5,068
West Ridge student fund	2,864	2,839	2,911	2,792
West Ridge student store	595	3	-	598
Total	\$ 152,196	551,622	572,836	130,982

See Accompanying Independent Auditors' Report



**HARLAN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUND  
YEAR ENDED JUNE 30, 2011**

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<b>Assets</b>				
Cash	\$ 4,040	2,376	1,536	4,880
Total assets	<u>4,040</u>	<u>2,376</u>	<u>1,536</u>	<u>4,880</u>
<b>Liabilities</b>				
Accounts payable	92	-	92	-
Due to other governments	3,948	2,376	1,444	4,880
Total liabilities	<u>\$ 4,040</u>	<u>2,376</u>	<u>1,536</u>	<u>4,880</u>

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURE BY FUNCTION  
ALL GOVERNMENTAL FUND TYPES  
FOR THE LAST SEVEN YEARS**

			Modified
	2011	2010	2009
Revenues:			
Local sources:			
Local Tax	\$ 7,512,198	6,342,488	5,837,085
Tuition	1,044,614	990,705	921,478
Other	853,217	948,330	1,089,363
State sources	7,794,654	6,996,289	8,203,024
Federal sources	736,524	1,290,479	434,184
Total	\$ 17,941,207	16,568,291	16,485,134
Expenditures:			
Instruction:			
Regular instruction	\$ 6,561,370	7,223,885	6,921,935
Special instruction	2,025,680	1,816,504	2,073,664
Other instruction	1,701,138	1,919,532	1,642,187
Support services:			
Student services	375,374	654,989	652,071
Instructional staff services	371,410	372,660	393,717
Administration services	1,495,949	1,551,890	1,423,483
Operation and maintenance of plant services	1,196,590	1,115,072	1,131,622
Transportation services	726,086	799,634	803,370
Other support services	3,997	-	-
Non-instructional programs	-	-	-
Other expenditures:			
Facilities acquisition	1,584,854	4,952,994	7,058,375
Long-term debt:			
Principal	435,000	420,000	545,000
Interest and fiscal charges	613,336	511,790	413,796
AEA flowthrough	613,093	615,639	560,644
Total	\$ 17,703,877	21,954,589	23,619,864

Accrual Basis			
2008	2007	2006	2005
5,715,871	4,475,863	5,143,601	4,779,429
875,705	1,163,555	1,018,745	749,905
1,101,418	2,003,624	1,125,999	901,406
7,994,997	7,621,498	7,045,015	6,597,218
410,350	464,915	567,328	645,349
<u>16,098,341</u>	<u>15,729,455</u>	<u>14,900,688</u>	<u>13,673,307</u>
6,640,200	6,094,933	5,697,085	5,467,395
1,955,078	2,305,201	2,055,594	1,490,215
1,562,230	1,429,800	1,404,287	1,561,313
544,349	432,183	490,975	519,832
401,968	420,718	353,555	316,907
1,344,138	1,253,482	1,244,337	1,053,037
1,139,891	1,080,158	1,048,294	1,328,061
697,317	800,819	689,655	526,169
969	-	-	-
-	-	-	44
662,735	269,496	375,293	-
714,900	699,909	669,659	653,396
47,680	43,324	70,377	119,264
519,167	498,288	458,259	449,820
<u>16,230,622</u>	<u>15,328,311</u>	<u>14,557,370</u>	<u>13,485,453</u>

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2011**

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY11	44,528
National School Lunch Program	10.555	FY11	294,606 *
			<u>339,134</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title 1, Part A Cluster			
Title 1 Grants to Local Educational Agencies	84.010	FY11	123,361
ARRA-Title 1 Grants to Local Educational Agencies, Recovery Act	84.389	FY11	44,332
			<u>167,693</u>
Vocational Education – Basic Grants to States	84.048	FY11	10,601
Safe and Drug-Free Schools and Communities			
- State Grants	84.186	FY11	3,849
Title IIA-Teacher Quality Program	84.367	FY11	57,811
Title IVA – Grants for State Assessments	84.369	FY11	9,596
ARRA-State Fiscal Stabilization Fund (SFSF)-			
Education State Grants, Recovery Act	84.394	FY11	278,858
Education Jobs Fund	84.410	FY11	90,993
Loess Hills Area Education Agency:			
Individuals with Disabilities Education Act			
(IDEA) Special Education – Grants to State	84.027	FY11	80,044
ARRA-Special Education Grants to States, Recovery Act	84.391	FY11	13,823
			<u>93,867</u>
Total			\$ <u>1,052,402</u>

\* Includes \$36,148 of non cash awards

**Basis of Presentation** – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Harlan Community School District. The financial statements of the School District are presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See Accompanying Independent Auditors' Report

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**



Marilyn Schroer, CPA  
Diane McGrain, CPA  
Jim Menard, CPA

December 27, 2011

**Independent Auditors' Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit Performed  
in Accordance with Government Auditing Standards**

The Board of Education of  
Harlan Community School District  
Harlan, IA 51537

We have audited the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund balance information of the Harlan Community School District as of and for the year ended June 30, 2011, and have issued our report thereon dated December 27, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Harlan Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Harlan Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Harlan Community School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Continued. . .

December 27, 2011  
Harlan Community School District  
Internal Control and Compliance Report

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item II-A-11, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harlan Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Harlan Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Harlan Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Harlan Community School District, and other parties to whom the Harlan Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Harlan Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Schuer & Associates, P.C.*

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**





Marilyn Schroer, CPA  
Diane McGrain, CPA  
Jim Menard, CPA

December 27, 2011

**Independent Auditors' Report on Compliance With Requirements  
Applicable to Each Major Program and Internal Control Over Compliance  
In Accordance With OMB Circular A-133**

To Board of Education of  
Harlan Community School District  
Harlan, IA 51537

Compliance

We have audited the compliance of Harlan Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2011. Harlan Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Harlan Community School District's management. Our responsibility is to express an opinion on Harlan Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harlan Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Harlan Community School District's compliance with those requirements.

In our opinion, Harlan Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of Harlan Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Harlan Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing our opinion on the effectiveness of Harlan Community School District's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Harlan Community School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as described above.

Harlan Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit the District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Harlan Community School District and other parties to whom Harlan Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*Schroer & Associates, P.C.*

**HARLAN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011**

**Part I: Summary of the Independent Auditors' Results:**

- (a) Unqualified opinions were issued on the financial statements.
- (b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No significant deficiencies or material weaknesses in internal control over the major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - Clustered programs:
    - CFDA Number 10.553 – School Breakfast Program
    - CFDA Number 10.555 – National School Lunch Program
  - Individual program
    - CFDA Number 84.394 – ARRA State Fiscal Stabilization Fund (SFSF) Education State Grants, Recovery Act
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Harlan Community School District did not qualify as a low-risk auditee.

**HARLAN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011**

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

**II-A-11 Disbursement Approval**

Comment – For one out of sixty transactions tested, there was no evidence of Board approval. Two transactions were approved by the Board but invoice support was missing.

Recommendation – The District should ensure all expenditures are properly approved. The District should also review the list of bills presented to the Board at regular meetings to ensure all claims are included and supported.

Response – We will ensure all expenditures are properly approved and supported.

Conclusion – Response accepted.

**INSTANCES OF NONCOMPLIANCE:**

No matters were reported.

**HARLAN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011**

**Part III: Findings and Questioned Costs for Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**INTERNAL CONTROL DEFICIENCIES:**

No material weaknesses in internal control over the major programs were noted.

**HARLAN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011**

**Part IV: Other Findings Related to Statutory Reporting:**

IV-A-11 Certified Budget

Expenditures for the year ended June 30, 2011 did not exceed the certified budget amounts.

IV-B-11 Questionable Expenditures

No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-11 Travel Expense

No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-11 Business Transactions

Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Kathy Chamberlain and Joan Chamberlain, employees, own shares in Chamberlain Brothers Lumber	Building repairs and maintenance supplies	\$ 9,236
Mike Bierl, employee, owner of Same Printing	T-shirts	\$ 8,872

In accordance with Iowa State Code 279.7A, the above transactions are not with board members and do not appear to represent a conflict of interest.

IV-E-11 Bond Coverage

Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

**HARLAN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011**

**Part IV: Other Findings Related to Statutory Reporting (continued):**

IV-F-11 Board Minutes

Comment – As previously noted, one transaction requiring board approval was not noted in the minutes as being approved by the board.

Recommendation – All expenditures should be approved by the board and included in the list of claims as required by Chapter 279.29 of the Code of Iowa.

Response – We will do this.

Conclusion – Response accepted.

IV-G-11 Certified Enrollment

No variances in the basic enrollment data certified to the Department of Education were noted.

IV-H-11 Supplemental Weighting

No variances regarding the supplemental weighting certified to the Department of Education were noted.

IV-I-11 Deposits and Investments

No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the District's investment policy were noted.

IV-J-11 Certified Annual Report

The Certified Annual Report was certified timely to the Iowa Department of Education.

IV-K-11 Categorical Funding

No instances were noted of categorical funding used to supplant rather than supplement other funds.

**HARLAN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2011**

**Part IV: Other Findings Related to Statutory Reporting (continued):**

**IV-L-11 Statewide Sales and Services Tax**

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance	\$ 1,676,835
Revenues/transfers in:	
Statewide sales tax revenues	919,706
Other local revenues	3,741
	<u>923,447</u>
	2,600,282
Expenditures/transfers out:	
Other	750
Transfers to debt service fund	1,049,535
	<u>1,050,285</u>
Ending balance	\$ <u>1,549,997</u>

For the year ended June 30, 2011, the District reduced the following levy as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
Debt service levy	\$ 2.79	\$ 1,049,535

**IV-M-11 Revenue Bonds**

The District is in compliance with the provisions of the revenue bond resolution.